



# **REPORT ON ARDAL'S ACTIVITIES**

**(2015 REVIEW AND 2016 OUTLOOK)**

Agentúra pre riadenie dlhu a likvidity (hereinafter referred to as the "ARDAL"), with its registered seat at Radlinského 32, Bratislava, Identification No.: 30792053 acting on behalf of the Ministry of Finance, manages the state debt according to the Act. No. 291/2002 Coll. on State Treasury, as amended, in line with the Debt Management Strategy approved for the given time period by the Government of the Slovak Republic.

For the avoidance of doubt, we note that all the data contained herein are for information only and may not be used for legal purposes. The submitted information does not recommend and do not persuade to investing in or selling of the government securities.

ARDAL is not responsible for any damages, losses, liabilities or expenses incurred as a result of investment decisions based on the data provided under this document.

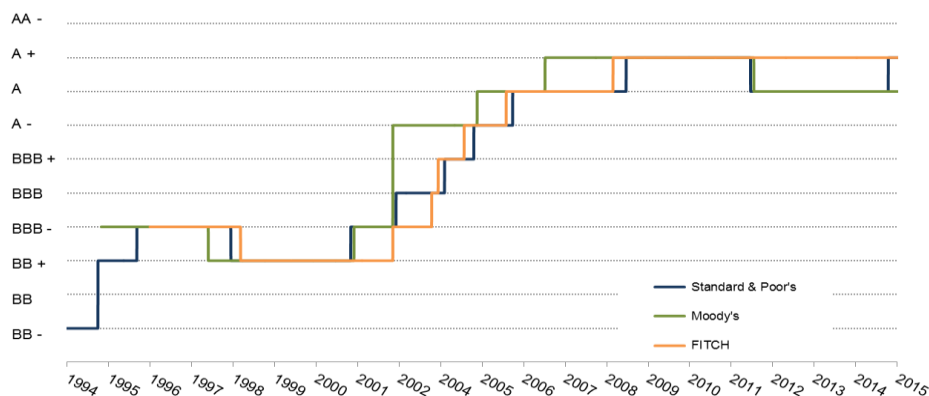
## **Key information – Overview**

1. Originally expected gross borrowing needs for 2015 in the amount of EUR 5.8 billion were reduced to EUR 3.8 billion during the year, due to the extraordinary balance sheet increase of the State Treasury and better cash performance of the state budget. Overall, the Ministry of Finance of the Slovak Republic obtained funding in the amount of EUR 3.9 billion in 2015.
2. During the last year, 8 selling auctions (16 ISINs) were accomplished. The overall demand reached EUR 3.9 billion and bonds in the total nominal value of EUR 1.7 billion were sold. In addition to the auctions, one syndicated sale was also carried out in 2015. Through this syndication a new line of 12-year bond was opened with a nominal value of EUR 1.5 billion (total demand of EUR 5.5 billion).
3. ECB (NBS) purchases of Slovak government bonds, under the quantitative easing programme (the PSPP), significantly contributed to further decline in the bond yields. Interest rates development and active portfolio management were reflected in the decrease in weighted average interest rate of government liabilities from the level 3.35 % p. a. in 2014 to the level of 2.84 % p. a. at the end of the year 2015.
4. The weighted average maturity of the state debt at the end of 2015 remained unchanged at 6.7 years with the weighted average duration of 6.1 years.
5. Total buy-backs of bonds maturing in 2016 reached the face value of EUR 677 million.
6. Ensuring compliance of the reasonable government debt and liquidity management with the valid act on fiscal responsibility has still remained a big challenge in operative management of the government debt and liquidity. The unpredictable environment of negative interest rates and the absence of a standard interbank money market with the generally applicable rules were the main challenges in the liquidity and cash reserves management in 2015.
7. In July 2015 the Standard & Poor's rating agency improved the Slovak Republic rating from the A level to A+ level with the stable outlook. In August 2015 the rating agency Fitch affirmed the rating of the Slovak Republic at A+ level with the stable outlook.

## **Rating as of 31<sup>st</sup> January 2016**

Rating of the Slovak Republic			
Assignment Date	Agency	Level	Outlook
January 2016	Standard & Poor's	A+	stable
November 2014	Moody's	A2	Stable
August 2015	Fitch	A+	Stable

## **Rating History of the Slovak Republic**



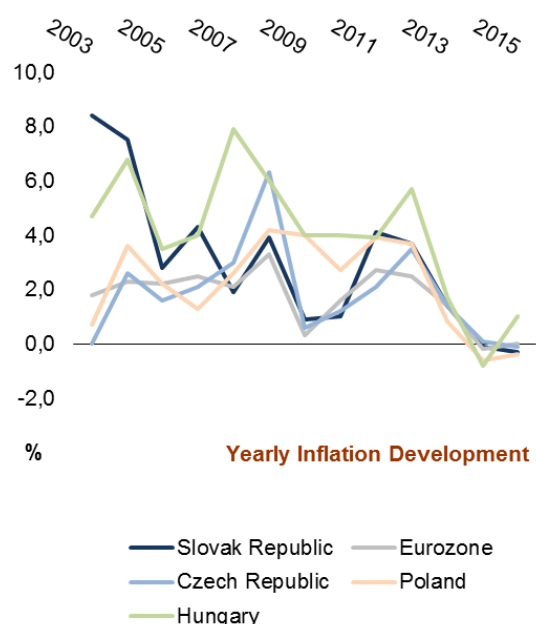
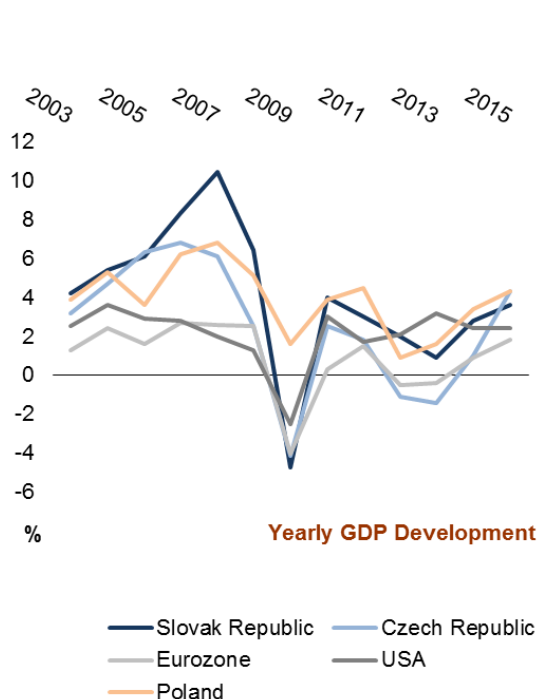
## Macroeconomic Data

Last year, Slovak economy recorded an increase of 3.6 %, which is the highest increase for the last five years. It was supported mainly by the domestic demand with a dominant contribution of investments. Investments along with the general government consumption profited from the accelerated draw-down of EU funds from the ending second programme period 2007 to 2013 (hereinafter "EU funds"). Last year, the household consumption kept its solid level but its growth keeps lagging behind the growth of disposable income of population. It resulted in a continuous increase in the rate of savings that attacked the 15-year maximum values. Exports were also getting on well, they got ahead of the growth of foreign demand in particular thanks to better performance of the automotive industry. The growth of import-intensive investments from the EU funds produced pressure on the growth of imports. Thus, the net export contributed negatively to GDP growth.

Thanks to the growth of both domestic and foreign demand in 2015, labour market recovery continued. During the whole year 2015, the average employment according to the ESA methodology has increased by 2.0 % to a level of 2,267 thousand people. Thus, on a year-on-year basis, approximately 44 thousand new jobs were created in the economy. They were created across the whole economy but in particular in market services. Job vacancies (according to the COLSAF3) reach historical maximum values, therefore, the ongoing positive employment trends on the short-term horizon can be expected.

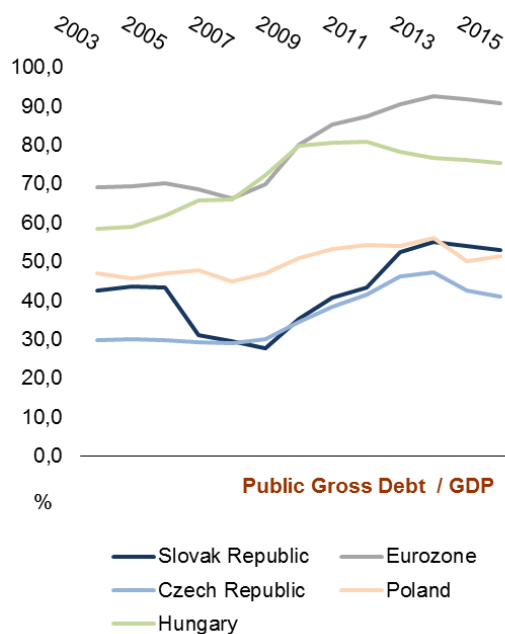
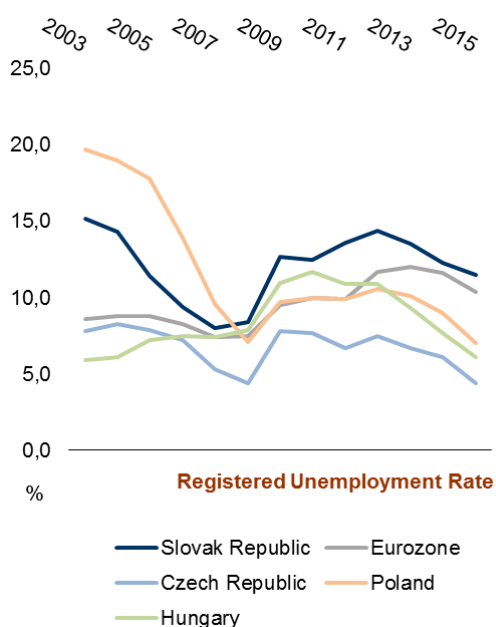
The rapid growth of employment was also reflected in the reduction of the unemployment rate. In 2015, it dropped by 1.7 p. p. to a level of 11.5 %. During the whole year 2015, Slovakia recorded slightly overheated labour market. It was reflected in a significant decrease of the rate of long-term unemployment, the effect on the dynamics of wages remained limited.

In 2015, the average nominal monthly wage of an employee in the economy increased to EUR 883, which represents an annual growth rate of 2.9 %. The building industry recorded the fastest growth of wages, with a considerable growth of productivity. Taking into account the ongoing decrease in prices, the real wage increased by 3.2 %, which represents the second fastest growth in the post-crisis period.



In 2015, after three years of surplus, the balance of payments reached a level of -1.1 % of GDP. The drop in the balance of payments is almost entirely caused by reducing the surplus of the trade balance of goods. In 2015, the import of goods has increased in particular under the influence of growth of import-intensive investments related to an increased draw-down of EU funds and to the continuation of investments in the automotive industry. However, it was also supported by a growing consumption of households. Thus, the surplus of the trade balance dropped despite the acceleration of growth of export of goods. The other components of the balance of payments remained at an approximate same level as in the previous year – the balance of services and secondary income slightly improved, the negative balance of primary income deepened.

During the whole year 2015, the deflationary environment prevailed. In October, the historically lowest value of inflation was reached -0.6 %. Both external and domestic factors caused the drop of the price level. The decreasing prices of energy commodities were the most important external factor contributing to this development. The oil price dropped to a 12-year minimum and through secondary effects, it also influenced the prices of goods and services. Food prices on world markets were also extremely low due to the surplus of supply. In the domestic environment, the transmission of the solid growth of wages into the prices of services has not manifested itself yet.

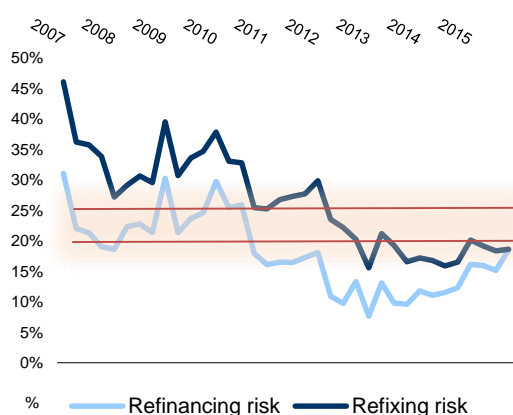


## Risk management

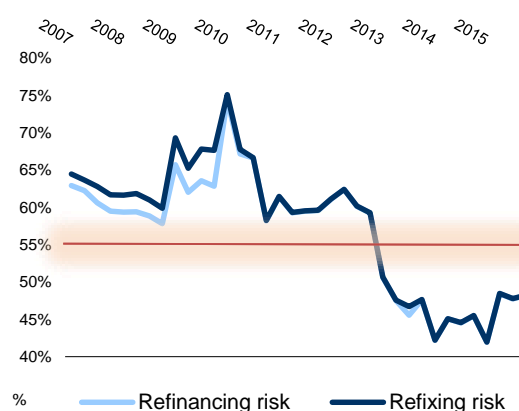
ARDAL manages the debt portfolio risks in accordance with the approved Government Debt Management Strategy for the years 2015 to 2018. This strategy is based on the strategy valid until 2014 and continues in monitoring of refinancing and interest rate risks with a slightly modified target parameter values. In the period of years 2015-2018, the goal is a close approximation to the target values or maintaining the parameters as closely as possible to the target values.

As regards the refinancing risk, there is a strategic intent to maintain the value of the liabilities to be redeemed within one year close to 20% of total liabilities. As for the refixing risk, there is a goal to maintain the value of the re-fixed liabilities within one year close to 25% of total liabilities. The value of refinancing risk and interest rate risks within five years should be near to 55% of redeemed / re-fixed liabilities within five years of total.

Compared to the previous period, the compliance with the above mentioned objectives provides for Slovakia less refinancing and interest rate risk from the perspective of the government debt. This way, it is slowing down a gradual decline of the relative debt costs, which also brings increase in the immunity of the portfolio against potential market shocks.



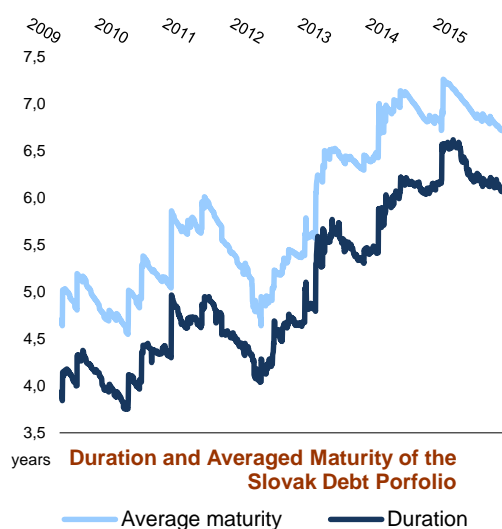
**Risk Indicators of the Slovak Debt Portfolio for the next year**



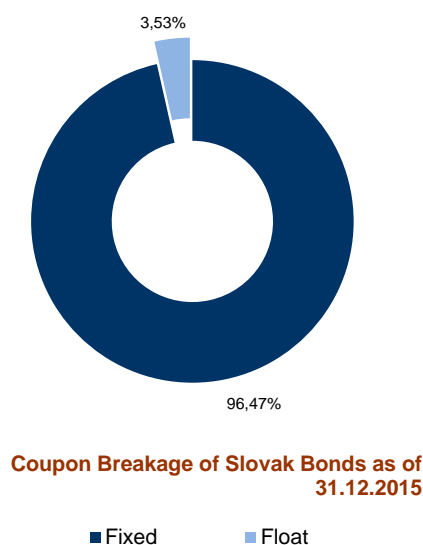
**Risk Indicators of the Slovak Debt Portfolio for the next 5 cumulative years**

Source: ARDAL

The weighted average maturity of the state debt portfolio reached the value 6.7 years and the duration was 6.2 years at the end of 2015. These values are similar to the debt portfolio characteristics of the Eurozone core countries and EFSF.



**Duration and Averaged Maturity of the Slovak Debt Portfolio**



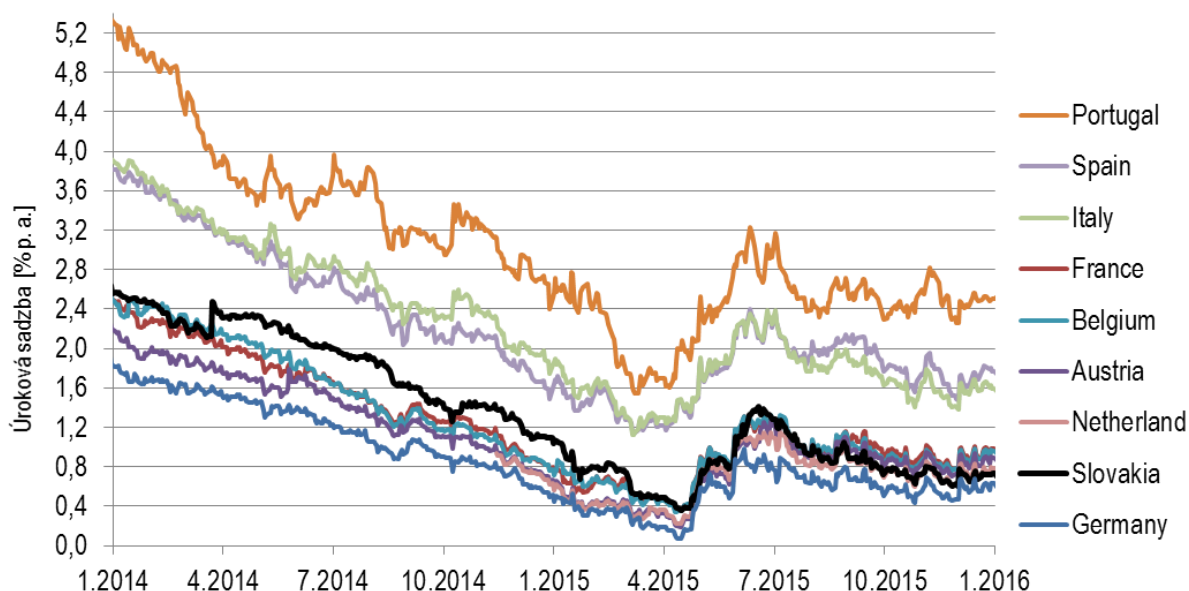
**Coupon Breakage of Slovak Bonds as of 31.12.2015**

Source: ARDAL

## Debt and liquidity management

The main driver of interest rates development in 2015 was the expected quantitative easing of the European Central Bank (ECB) and its subsequent realisation phase. The ECB officially started the Public Sector Purchase Programme in March 2015, but the expectation of the programme to happen can reach as back as to the second half of 2014.

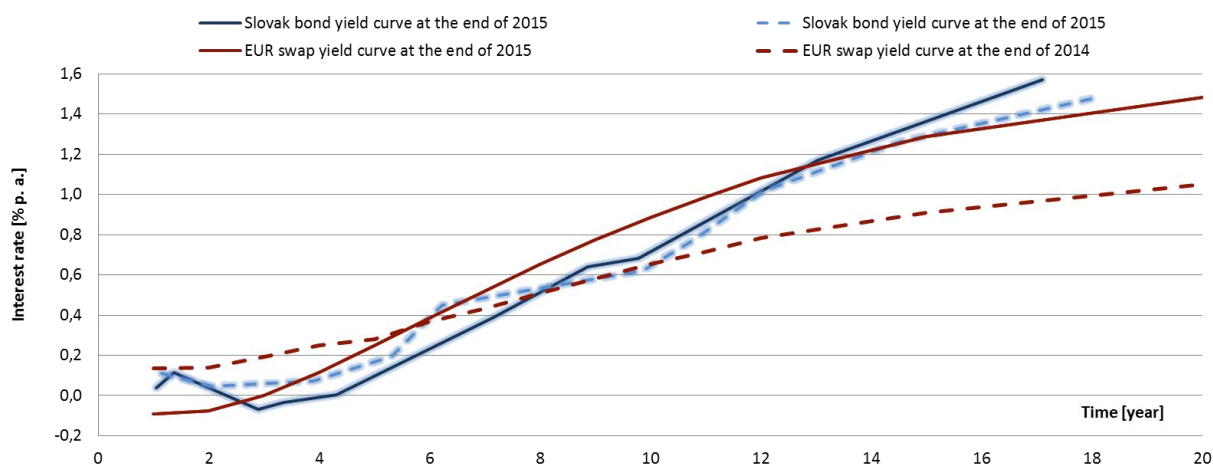
**Interest rates of selected euro area countries (10 year bonds)**



Source: Bloomberg

The yields of all euro area countries continued in uninterrupted decline at the beginning of 2015. The development followed the decline in yields that had happened in the previous year as well. The significant drop in yields was mainly caused by expectations about the ECB quantitative easing (the "QE") programme. The actual start of the QE has not caused any further decline in yields because the implementation of the QE had been fully incorporated into the expectations. The yields of the core euro area countries oscillated between 0.4 and 1.2 % p.a. The lowest yields have been naturally observed in the case of Germany. The impact of the QE was probably strongest on Slovak bonds (among all euro area countries). The Slovak 10-year bonds on the secondary market were being traded most of the time as the second lowest after Germany in the last months of 2015.

**Slovak Bond and EUR swap yields curves at the end of 2014 and 2015**



Source: Bloomberg

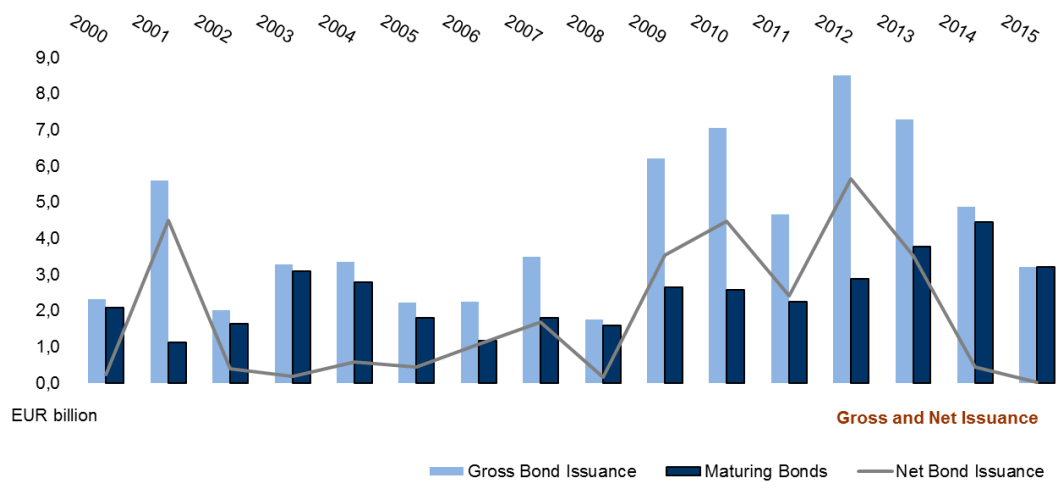
During the year 2015 ARDAL managed to sell 17 government bonds and T-Bills via competitive auctions and one bond sale through the syndicate, consisted from 3 primary dealers. The total demand (including the syndicate and T-Bills) reached EUR 10,535.4 million. The bids were accepted at a face value of EUR 3,653.9 million (including 9-month T-Bills matured in October 2015).

*Overview of the Government Securities Sell Auctions and Syndicate in 2015*

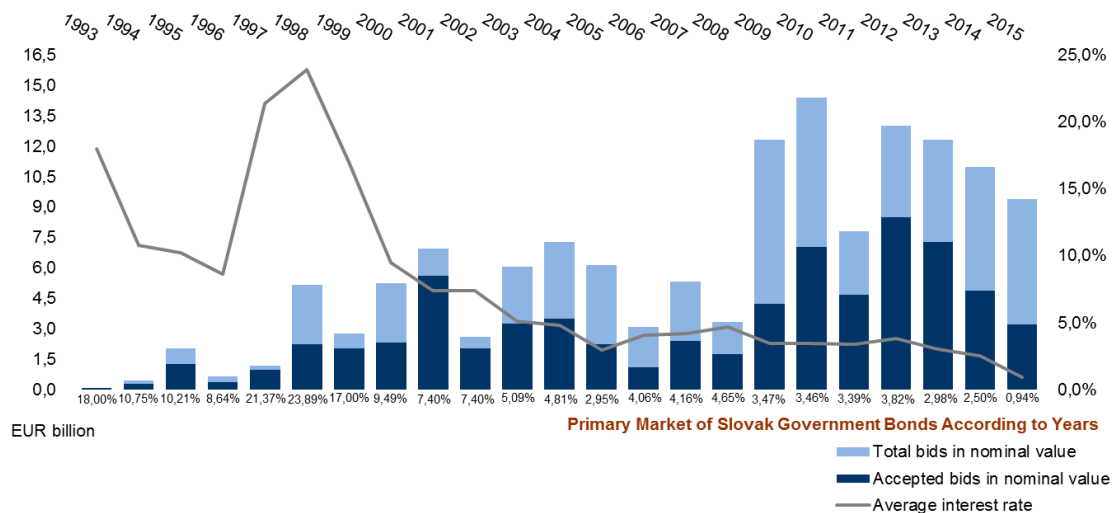
Auction Date	Settlement Date	Maturity Date	Auction Type	Accepted Bids [EUR million]	Bid/ Cover Ratio	Average YTM [% p.a.]	ASW Spread [% p.a.]
<b>ŠD 219 (SLOVGB 4 % 01/19/17, ISIN SK4120008301), Coupon Rate 4.625 % p. a., Original Maturity 5 Years</b>							
19.01.2015	21.01.2015	19.01.2017	Competitive	96.0	3.3	0.083	-0.035
16.03.2015	18.03.2015	19.01.2017	Competitive	126.0	1.7	0.015	-0.069
20.04.2015	22.04.2015	19.01.2017	Competitive	54.0	2.6	0.002	-0.004
15.06.2015	17.06.2015	19.01.2017	Competitive	49.4	2.3	0.138	0.005
<b>ŠD 223 (SLOVGB 3 % 11/15/24, ISIN SK4120008871), Coupon Rate 3.375 % p. a., Original Maturity 12 Years</b>							
16.02.2015	18.02.2015	15.11.2024	Competitive	116.0	1.8	0.618	-0.050
18.05.2015	20.05.2015	15.11.2024	Competitive	159.0	1.2	0.820	-0.059
15.06.2015	17.06.2015	15.11.2024	Competitive	122.9	1.6	1.230	0.130
19.10.2015	21.10.2015	15.11.2024	Competitive	85.0	3.7	0.637	-0.185
<b>ŠD 226 (SLOVGB 1 ½ 11/28/18, ISIN SK4120009234), Coupon Rate 1.5 % p. a., Original Maturity 5.5 Years</b>							
19.01.2015	21.01.2015	28.11.2018	Competitive	112.5	2.8	0.132	-0.071
18.05.2015	20.05.2015	28.11.2018	Competitive	68.1	3.0	0.110	-0.139
19.10.2015	21.10.2015	28.11.2018	Competitive	112.0	2.7	-0.045	-0.151
16.11.2015	19.11.2015	28.11.2018	Competitive	110.0	3.6	-0.096	-0.136
<b>ŠD 227 (SLOVGB 3 % 01/16/29, ISIN SK4120009762), Coupon Rate 3.625 % p. a., Original Maturity 15 Years</b>							
16.02.2015	18.02.2015	16.01.2029	Competitive	94.1	1.4	1.107	0.279
16.03.2015	18.03.2015	16.01.2029	Competitive	115.7	2.9	0.773	0.020
17.11.2015	19.11.2015	16.01.2029	Competitive	138.0	1.9	1.163	0.024
<b>ŠD 228 (SLOVGB 1 % 01/21/27, ISIN SK4120010430), Coupon Rate 1.375 % p. a., Original Maturity 12 Years</b>							
13.01.2015	21.01.2015	21.01.2027	Syndicate	1,500.0	3.7	1.442	0.560
20.04.2015	22.04.2015	21.01.2027	Competitive	155.2	1.5	0.464	-0.047
<b>ŠPP 13 (SLOVTB 0 14/10/15, ISIN SK6120000139), Discounted T-Bills, Original Maturity 273 Days</b>							
12.01.2015	14.01.2015	14.10.2015	Competitive	440.0	2.6	0.055	-0.187

In addition to the standard money market interbank transactions, ARDAL continued in carrying out buy-backs of the government securities maturing in 2016. The overall amount (in a nominal value) of bought back bonds was EUR 676.8 million. There were buy-backs of the following bonds - ŠD 213 (SLOVGB 3 ½ 02/24/16) and ŠD 218 (SLOVGB Float 11/16/16). The buy-backs were executed through the direct purchases on the secondary market.

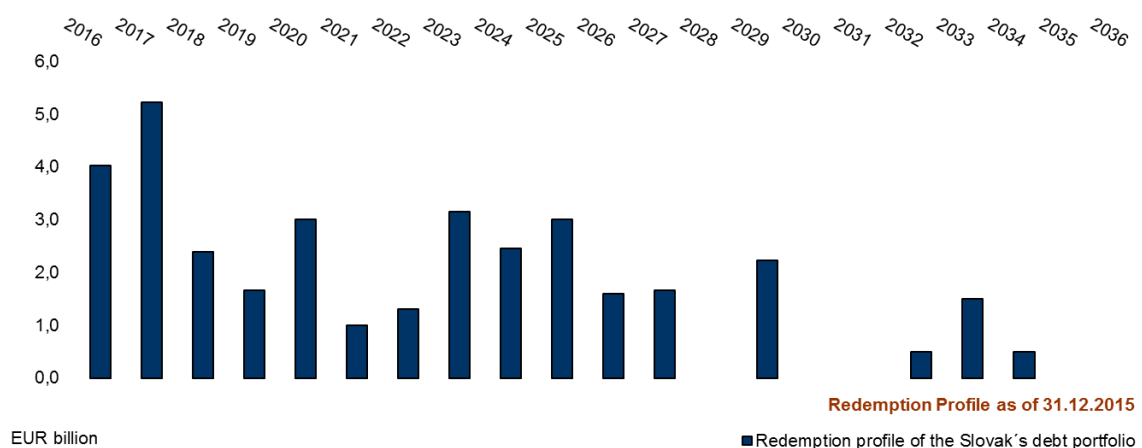




Source: ARDAL



Source: ARDAL



Source: ARDAL

## Syndicate sale of the 12-year Government Bonds

Joint Book-runners:	ČSOB (KBC Group), SG CIB, SLSP (Erste Group)
Nominal Amount:	EUR 1.5 billion
Maturity Date:	21 <sup>st</sup> January 2027
Coupon:	1.375 % p. a.
Re-offer Spread vs. Mid-swaps:	0.560 % p. a.
Re-offer Price:	99.267 %
Re-offer Yield:	1.442 % p. a.

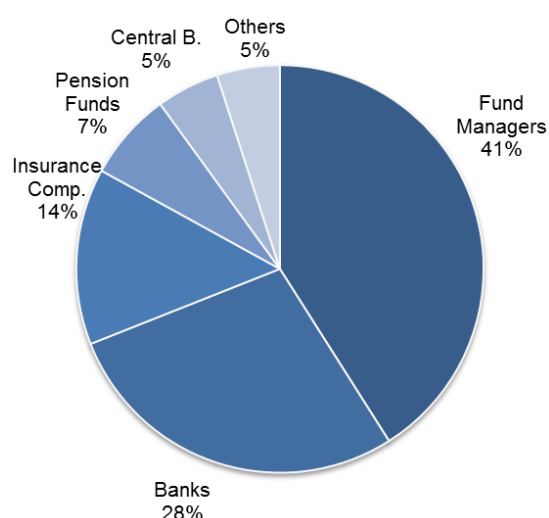
The mandate for the transaction was announced on Monday, January 12<sup>th</sup> at 10:30am CET and a Global Investor Call was held in the afternoon. On the back of the stable market conditions the following morning, on January 13<sup>th</sup>, the issuer decided to proceed with the Initial Pricing Thoughts (IPTs) release of mid-swaps (MS) plus low to mid 60s for a new 12-year issue.

On the back of the strong investor interest, the issuer decided to officially open the orderbook at 10:45am CET with a price guidance of MS +60bps area which generated over EUR 5 billion of orders within less than one hour after opening. The robust demand allowed for a revision of the price guidance to MS +57bps (+/-1bp).

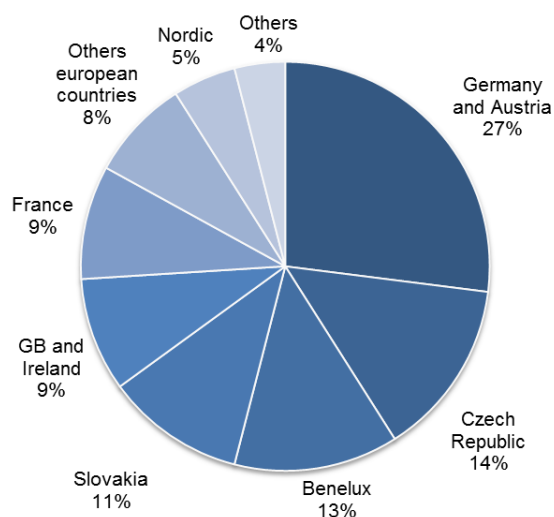
The orderbook closed at 12:00 CET with a total demand of EUR 5.5 billion and over 200 investors participating. The size and high quality of the orderbook allowed Slovakia to price a EUR 1.5 billion new issue at the tight end of the revised price guidance at MS +56bps, corresponding to a very marginal new issue premium of only 1bp over the issuer's interpolated secondary curve. The transaction benefited from a highly granular orderbook with 89% of the issue placed outside of Slovakia with international investors from over 30 countries.

The final pricing also represents a new lowest yield ever achieved by Slovakia for a long-dated Euro bond. The spread reached on the bond issue was equivalent to +96.5bps versus the DBR 1% 08/2024 (German bund).

*Investors type distribution*



*Geographical distribution*



## *Plans for the year 2016*

The gross issuance of the new state debt in 2016 is supposed to be EUR 5.8 bn. The final value will depend on the development of the budget deficit and the market situation. The majority of the funding will be reached by the government bonds sold via auctions and syndicates. Presumably, the small amount of refinancing will be in a form of T-Bills and government loans.

In the year 2016 ARDAL plans to open two or three new lines of the government bonds. The following lines will be opened depending on the market conditions and the investors demand:

- Government bond - tenor 15 years, targeted size EUR 3.0 billion, fixed coupon rate (the line was already opened on 21<sup>st</sup> January 2016 via syndication sale in the total amount of EUR 1.0 billion),
- Government bond – tenor 10+ (30) years, targeted size EUR 3.0 billion, fixed coupon rate,
- Government bond – tenor 5 or 7 years, targeted size EUR 1.5 or 3.0 billion, fixed coupon rate.

Other lines of bonds can be opened pursuing requirements of the debt management and investors' demand.

Also in 2016 the bond sale auctions will be held once per month – usually on the third Monday in a month. Based on liquidity requirements, debt coverage management and investors' demand, more different bonds can be auctioned on one auction day. Due to flexibility, all auctions are stated as “for decision”; decisions will be taken upon communication with primary dealers. The bonds offered in the next auction will be listed at the end of each calendar month in a regular monthly report. The settlement day of trades resulting from an auction is D+2. The auctions in July, August and December are not presumed to be held, however, following the PD request and agreement with ARDAL, the auctions are possible to be held.

### *Government bond auctions in 2016*

Auction Date	Settlement Date	Bond Series	ISIN	Auction Type
18.01.2016	20.01.2016	ŠD 223, ŠD 226	SK4120008871, SK4120009234	competitive sale
15.02.2016	17.02.2016	ŠD 226, ŠD 228	SK4120009234, SK4120010430	competitive sale
21.03.2016	23.03.2016	for decision		competitive sale
18.04.2016	20.04.2016	for decision		competitive sale
16.05.2016	18.05.2016	for decision		competitive sale
20.06.2016	22.06.2016	for decision		competitive sale
18.07.2016	20.07.2016	for decision		competitive sale
15.08.2016	17.08.2016	for decision		competitive sale
19.09.2016	21.09.2016	for decision		competitive sale
17.10.2016	19.10.2016	for decision		competitive sale
21.11.2016	23.11.2016	for decision		competitive sale
19.12.2016	21.12.2016	for decision		competitive sale

### *Opened lines of bonds (available for auctions) as of 31<sup>st</sup> January 2016*

Bond Series	ISIN	Bloomberg	Issue Date	Maturity Date	Outstanding [EUR million]	Available [EUR million]
ŠD 223	SK4120008871	SLOVGB 3 ¾ 11/15/24	15.11.2012	15.11.2024	2,584.9	415.1
ŠD 226	SK4120009234	SLOVGB 1 ½ 11/28/18	28.05.2013	28.11.2018	2,289.6	710.4
ŠD 227	SK4120009762	SLOVGB 3 ¾ 01/16/29	16.01.2014	16.01.2029	2,104.1	895.9
ŠD 228	SK4120010430	SLOVGB 1 ¾ 01/21/27	21.01.2015	21.01.2027	1,655.2	1,344.8
ŠD 229	SK4120011420	SLOVGB 1 ¾ 01/21/31	21.01.2016	21.01.2031	1,000.0	2,000.0

### T-Bills issue in the year 2016

During the year 2016, ARDAL plans one issue of T-Bills with maturity of 12 months. The issue is planned to be probably held in June 2016, with a total value of EUR 1.0 billion. The first auction of new T-Bills usually takes place by issuance of T-Bills and the next auction is subsequently held on the basis of ARDAL's needs and investors' requirements. The T-Bills will be issued in the own Ministry of Finance portfolio and then will be sold at auctions on the secondary market.

*Opened T-Bills line (available for the auctions) as of 31<sup>st</sup> January 2016*

T-Bill	ISIN	Bloomberg	Issue Date	Maturity Date	Outstanding [EUR million]	MoF Own Portfolio [EUR million]	Total Value [EUR million]
ŠPP 14	SK6120000147	SLOVTB 0 11/16/16	18.11.2015	16.11.2015	0,0	1 000,0	1 000,0

### Primary Dealers as of 31<sup>st</sup> January 2016

- Barclays Bank plc
- Československá obchodná banka, a.s., (KBC Group)
- HSBC France
- Natixis
- Slovenská sporiteľňa, a.s., (Erste Group Bank)
- Société Générale
- Tatra banka, a.s., (RZB Group)
- UniCredit Bank Czech Republic and Slovakia, a.s.
- Všeobecná úverová banka, a.s., (Intesa Sanpaolo Group)
- ING Bank N.V. (ING Bratislava)
- Deutsche Bank AG

## ***Conclusion and Outlook for 2016***

The recovery of the European economy, supported by the weakness of the euro, low interest rates and very low energy prices is still very fragile. An unpredictable impact of the refugee crisis development and concerns about the spread of terrorism from the Middle East are other risks that will affect the economic development in 2016.

The ongoing buying of the Slovak bonds by the ECB (NBS) remains a significant factor that will continue to affect the interest rates. Consequently, it will be necessary to maintain a certain amount of flexibility regarding the issuance strategy and methods of the bonds sale.

According to the current forecast of the EC, the Slovak Republic will also be in 2016 one of the fastest growing economies in the euro area (estimated GDP growth of 3.4%) what makes a good assumption for further reduction of the structural budget deficit. A highlight of the year on the domestic political scene will be the parliamentary election, which will be held on 5<sup>th</sup> March 2016. Generally, it is not expected that the election results will have a major negative impact on the further development of the Slovak economy. Total gross debt should remain unchanged at the level 52% of GDP by the end of 2016.

In the following period ARDAL will make an effort for maximum transparency of issuance policy, improving the infrastructure of the government securities sales and raising the liquidity of the Slovak government securities on the secondary market. A new Bloomberg E-bond platform for trading in the secondary market, to be introduced during the year 2016 in cooperation with the primary dealers, will hopefully support this intention.

In order to promote transparency and improve the quality of communication with investors, an upgrade of ARDAL's website, which will allow the users a direct access to current data on the government debt and its risk parameters on a real time basis, will continue this year.



## ***Contacts***

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**Reuters Code:** DLMA

**Bloomberg Code:** DLMA

## ***Useful links***

- [www.finance.gov.sk](http://www.finance.gov.sk) (Ministry of Finance of the Slovak Republic)
- [www.statistics.sk](http://www.statistics.sk) (Statistical Office of the Slovak Republic)
- [www.nbs.sk](http://www.nbs.sk) (National Bank of Slovakia)
- [www.ecb.europa.eu](http://www.ecb.europa.eu) (European Central Bank)
- [www.pokladnica.sk](http://www.pokladnica.sk) (State Treasury)
- [www.cdcp.sk](http://www.cdcp.sk) (Central Depository of Securities)
- [www.bsse.sk](http://www.bsse.sk) (Bratislava Stock Exchange)
- [ec.europa.eu/eurostat](http://ec.europa.eu/eurostat) (Eurostat)